

**TOWN OF CHELSEA, OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS**  
**AND ACCOMPANYING**  
**INDEPENDENT AUDITOR'S REPORTS**  
  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2014**

**OBER & LITTLEFIELD**  
**CERTIFIED PUBLIC ACCOUNTANTS, PLLC**  
**124 South Main Street**  
**Miami, Oklahoma 74354**

**TOWN OF CHELSEA, OKLAHOMA  
ANNUAL FINANCIAL STATEMENTS  
AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**TOWN OF CHELSEA, OKLAHOMA**

**LIST OF PRINCIPAL OFFICIALS**

**June 30, 2014**

Town Council

Daryl Price	Mayor
Howard Drake	Trustee
Frank Johnson	Trustee
Mike Provence	Trustee
Bill Woodruff	Trustee

**OBER & LITTLEFIELD**  
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**INDEPENDENT AUDITOR'S REPORT**

To the Town Council  
Town of Chelsea, Oklahoma

**Report on the Financial Statements**

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Chelsea, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1C; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chelsea, Oklahoma, as of June 30, 2014, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1C.

### **Basis of Accounting**

We draw attention to Note 1C of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Other Matters**

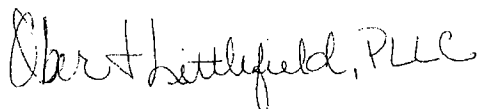
#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, on our consideration of the Town of Chelsea, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Chelsea, Oklahoma's internal control over financial reporting.



**OBER & LITTLEFIELD, CPAs, PLLC**  
**MIAMI, OKLAHOMA**  
**JUNE 30, 2016**

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
  - Governmental funds
  - Proprietary (enterprise) fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**TOWN OF CHELSEA, OKLAHOMA**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**JUNE 30, 2014**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 78,175.36	\$ 1,083,203.24	\$ 1,161,378.60
Inventory	-	51,541.50	51,541.50
Total Current Assets	<u>78,175.36</u>	<u>1,134,744.74</u>	<u>1,212,920.10</u>
Non-Current Assets:			
Cash, restricted	125,589.92	55,932.24	181,522.16
Investments, restricted	1,787,244.50	55,038.52	1,842,283.02
Investments, development land	-	51,970.17	51,970.17
Capital assets, net of accumulated depreciation	<u>547,850.11</u>	<u>3,764,187.16</u>	<u>4,312,037.27</u>
Total Non-Current Assets	<u>2,460,684.53</u>	<u>3,927,128.09</u>	<u>6,387,812.62</u>
Total ASSETS	<u>2,538,859.89</u>	<u>5,061,872.83</u>	<u>7,600,732.72</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Current portion of bonds payable	-	50,000.00	50,000.00
Current portion of capital lease payable	16,407.31	-	16,407.31
Current portion of notes payable	-	5,099.28	5,099.28
Total current liabilities	<u>16,407.31</u>	<u>55,099.28</u>	<u>71,506.59</u>
Noncurrent Liabilities:			
Payable from restricted assets:			
Meter deposits payable	-	34,376.88	34,376.88
Bonds payable, less current portion	-	1,865,000.00	1,865,000.00
Capital leases payable, less current portion	53,771.54	-	53,771.54
Notes payable, less current portion	-	31,344.68	31,344.68
Total noncurrent liabilities	<u>53,771.54</u>	<u>1,930,721.56</u>	<u>1,984,493.10</u>
Total LIABILITIES	<u>70,178.85</u>	<u>1,985,820.84</u>	<u>2,055,999.69</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	477,671.26	1,812,743.20	2,290,414.46
Restricted	1,912,834.42	128,564.05	2,041,398.47
Unrestricted	<u>78,175.36</u>	<u>1,134,744.74</u>	<u>1,212,920.10</u>
Total NET POSITION	<u>\$ 2,468,681.04</u>	<u>\$ 3,076,051.99</u>	<u>\$ 5,544,733.03</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHELSEA, OKLAHOMA**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
<b>Governmental activities:</b>							
<i>General Government</i>							
General government	\$ 158,280.31	\$ 6,717.17	\$ 7,027.13	\$ -	\$ (144,536.01)		\$ (144,536.01)
Town clerk	67,107.05	-	-	-	(67,107.05)		(67,107.05)
Town treasurer	5,442.84	-	-	-	(5,442.84)		(5,442.84)
Town administrator	2,066.34	-	-	-	(2,066.34)		(2,066.34)
Total General Government	<u>232,896.54</u>	<u>6,717.17</u>	<u>7,027.13</u>	<u>-</u>	<u>(219,152.24)</u>		<u>(219,152.24)</u>
<i>Public Safety and Judiciary</i>							
Fire	79,287.90	500.00	49,108.98	-	(29,678.92)		(29,678.92)
Municipal court	14,793.23	-	-	-	(14,793.23)		(14,793.23)
Police	290,907.05	132,739.12	9,337.00	-	(148,830.93)		(148,830.93)
Town attorney	10,991.53	-	-	-	(10,991.53)		(10,991.53)
Total Public Safety and Judiciary	<u>395,979.71</u>	<u>133,239.12</u>	<u>58,445.98</u>	<u>-</u>	<u>(204,294.61)</u>		<u>(204,294.61)</u>
<i>Transportation</i>							
Street and alley	<u>41,692.61</u>	<u>300.00</u>	<u>-</u>	<u>-</u>	<u>(41,392.61)</u>		<u>(41,392.61)</u>
Total Transportation	<u>41,692.61</u>	<u>300.00</u>	<u>-</u>	<u>-</u>	<u>(41,392.61)</u>		<u>(41,392.61)</u>
<i>Culture, Parks and Recreation</i>							
Cemetery	44,011.68	10,062.50	12,741.25	-	(21,207.93)		(21,207.93)
Library	30,711.76	-	8,066.16	-	(22,645.60)		(22,645.60)
Parks	3,961.52	-	2,615.30	-	(1,346.22)		(1,346.22)
Swimming pool	<u>18,026.65</u>	<u>12,281.25</u>	<u>-</u>	<u>-</u>	<u>(5,745.40)</u>		<u>(5,745.40)</u>
Total Culture, Parks and Recreation	<u>96,711.61</u>	<u>22,343.75</u>	<u>23,422.71</u>	<u>-</u>	<u>(50,945.15)</u>		<u>(50,945.15)</u>
Total governmental activities	<u>767,280.47</u>	<u>162,600.04</u>	<u>88,895.82</u>	<u>-</u>	<u>(515,784.61)</u>		<u>(515,784.61)</u>
<b>Business-type activities:</b>							
Chelsea Economic Development Authority	<u>1,363,175.04</u>	<u>1,251,541.53</u>	<u>-</u>	<u>12,964.00</u>	<u>-</u>	<u>\$ (98,669.51)</u>	<u>(98,669.51)</u>
Total business-type activities	<u>1,363,175.04</u>	<u>1,251,541.53</u>	<u>-</u>	<u>12,964.00</u>	<u>-</u>	<u>(98,669.51)</u>	<u>(98,669.51)</u>
<b>Total primary government</b>	<u>\$ 2,130,455.51</u>	<u>\$ 1,414,141.57</u>	<u>\$ 88,895.82</u>	<u>\$ 12,964.00</u>	<u>\$ (515,784.61)</u>	<u>(98,669.51)</u>	<u>\$ (614,454.12)</u>

(continued)

The accompanying notes are an integral part of these financial statements.



**TOWN OF CHELSEA, OKLAHOMA**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
	<u>Expenses</u>					
General revenues:						
Taxes:						
Sales tax				\$ 436,312.22	\$ -	\$ 436,312.22
Use tax				44,835.64	-	44,835.64
Alcoholic beverage tax				11,579.43	-	11,579.43
Franchise tax				35,374.14	-	35,374.14
Cigarette tax				5,127.10	-	5,127.10
Resale apportionment				451.63	-	451.63
Taxes restricted for transportation purposes:						
Motor vehicle tax				15,125.92	-	15,125.92
Gasoline tax				-	-	-
Investment income				88,616.45	1,487.76	90,104.21
Investment gains (losses)				171,887.34	-	171,887.34
Reimbursements				76,676.01	-	76,676.01
Transfers - internal activities				(155,490.75)	155,490.75	-
Total general revenues, special items, and transfers				730,495.13	156,978.51	887,473.64
Change in net position				214,710.52	58,309.00	273,019.52
Net position - beginning				2,261,809.56	3,047,797.33	5,309,606.89
Prior period adjustment				(7,839.04)	(30,054.34)	(37,893.38)
Net position - beginning restated				2,253,970.52	3,017,742.99	5,271,713.51
Net position - ending				\$ 2,468,681.04	\$ 3,076,051.99	\$ 5,544,733.03

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHELSEA, OKLAHOMA**  
**BALANCE SHEET - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2014**

	<u>General Fund</u>	<u>Chelsea Improvement Trust</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 78,175.36	\$ 6,973.22	\$ 118,616.70	\$ 203,765.28
Investments	<u>-</u>	<u>1,750,516.63</u>	<u>36,727.87</u>	<u>1,787,244.50</u>
Total Assets	<u>\$ 78,175.36</u>	<u>\$ 1,757,489.85</u>	<u>\$ 155,344.57</u>	<u>\$ 1,991,009.78</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Assigned to:				
Capital improvements	-	1,757,489.85	-	1,757,489.85
Other purposes	-	-	155,344.57	155,344.57
Unassigned	<u>78,175.36</u>	<u>-</u>	<u>-</u>	<u>78,175.36</u>
Total Fund Balances	<u>78,175.36</u>	<u>1,757,489.85</u>	<u>155,344.57</u>	<u>1,991,009.78</u>
Total Liabilities and Fund Balances	<u>\$ 78,175.36</u>	<u>\$ 1,757,489.85</u>	<u>\$ 155,344.57</u>	

**Reconciliation to Statement of Net Position:**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities of \$1,299,763.03 are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$751,912.92. 547,850.11

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Capital leases payable (70,178.85)

Net position of governmental activities \$ 2,468,681.04

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHELSEA, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>General Fund</u>	<u>Chelsea Improvement Trust</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
<b>Taxes:</b>				
Sales tax	\$ 436,312.22	\$ -	\$ -	\$ 436,312.22
Use tax	44,835.64	-	-	44,835.64
Alcoholic beverage tax	11,579.43	-	-	11,579.43
Cigarette tax	5,127.10	-	-	5,127.10
Motor vehicle tax	-	-	15,125.92	15,125.92
Franchise tax	35,374.14	-	-	35,374.14
Resale apportionment	451.63	-	-	451.63
<b>Other:</b>				
Admissions	-	-	12,281.25	12,281.25
Dispatching income	39,600.00	-	-	39,600.00
Donations	7,027.13	-	55,722.00	62,749.13
Fire runs	500.00	-	-	500.00
Grants	4,473.98	-	8,650.00	13,123.98
Investment income	18.64	84,002.32	4,595.49	88,616.45
Investment gain (loss)	-	171,887.34	-	171,887.34
Licenses and permits	1,090.00	-	-	1,090.00
Lot sales	-	-	10,062.50	10,062.50
Miscellaneous	5,627.17	-	13,322.71	18,949.88
Police fines	69,183.22	-	23,955.90	93,139.12
Reimbursements	76,676.01	-	-	76,676.01
Total Revenues	<u>737,876.31</u>	<u>255,889.66</u>	<u>143,715.77</u>	<u>1,137,481.74</u>
<b>Expenditures:</b>				
<b>General Government:</b>				
Town administrator	2,066.34	-	-	2,066.34
Town clerk	67,107.05	-	-	67,107.05
Town treasurer	5,442.84	-	-	5,442.84
General government	146,512.50	-	8,683.69	155,196.19
<b>Public Safety and Judiciary:</b>				
Fire	85,801.12	-	65,400.10	151,201.22
Municipal court	14,793.23	-	-	14,793.23
Police	293,156.95	-	29,381.64	322,538.59
Town attorney	10,991.53	-	-	10,991.53
<b>Transportation:</b>				
Street and alley	-	-	41,692.61	41,692.61
<b>Culture, Parks and Recreation:</b>				
Cemetery	-	-	42,033.87	42,033.87
Library	-	-	29,676.96	29,676.96
Parks	1,000.62	-	7,175.00	8,175.62
Swimming pool	-	-	15,879.15	15,879.15
Total Expenditures	<u>626,872.18</u>	<u>-</u>	<u>239,923.02</u>	<u>866,795.20</u>
Excess (deficiency) of revenues over expenditures	111,004.13	255,889.66	(96,207.25)	270,686.54
<b>Other Financing Sources (Uses)</b>				
Loan proceeds	63,220.16	-	10,160.00	73,380.16
Transfers in	84,000.00	-	107,778.74	191,778.74
Transfers out	(263,269.49)	(84,000.00)	-	(347,269.49)
Total Other Financing Sources (Uses)	<u>(116,049.33)</u>	<u>(84,000.00)</u>	<u>117,938.74</u>	<u>(82,110.59)</u>
Net change in fund balances	(5,045.20)	171,889.66	21,731.49	188,575.95
Fund balance - beginning	96,561.61	1,585,600.19	128,111.07	1,810,272.87
Prior period adjustments	(13,341.05)	-	5,502.01	(7,839.04)
Fund balance - beginning restated	<u>83,220.56</u>	<u>1,585,600.19</u>	<u>133,613.08</u>	<u>1,802,433.83</u>
Fund balance - ending	<u>\$ 78,175.36</u>	<u>\$ 1,757,489.85</u>	<u>\$ 155,344.57</u>	<u>\$ 1,991,009.78</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHELSEA, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Reconciliation to the Statement of Activities:

Net change in fund balances - total governmental funds \$ 188,575.95

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	102,158.24
Depreciation expense	<u>(38,396.73)</u>
	<u>63,761.51</u>

Loan proceeds is reported as other financing sources in governmental funds and, thus has the effect of increasing fund balance because current financial resources have been recognized. For the City as a whole, however, the loan proceeds increase the liabilities in the statement of net assets and do not result in income in the statement of activities.

Loan proceeds	<u>(73,380.16)</u>
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Repayment of notes payable is reported as an expenditure in governmental funds and, thus For the Town as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Principal payments made on notes payable	<u>35,753.22</u>
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Change in Net Assets of Governmental Activities	<u>\$ 214,710.52</u>
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The accompanying notes are an integral part of these financial statements.

**TOWN OF CHELSEA, OKLAHOMA**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2014**

	<u>Economic Development Authority</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 1,083,203.24
Inventory	<u>51,541.50</u>
Total Current Assets	<u>1,134,744.74</u>
Noncurrent Assets:	
Cash, restricted	55,932.24
Investments, restricted	55,038.52
Investments, development land	51,970.17
Capital assets, net of accumulated depreciation	<u>3,764,187.16</u>
Total Noncurrent Assets	<u>3,927,128.09</u>
Total Assets	<u>5,061,872.83</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Current portion of bonds payable	50,000.00
Current portion of notes payable	<u>5,099.28</u>
Total Current Liabilities	<u>55,099.28</u>
Noncurrent Liabilities:	
Payable from restricted assets:	
Meter deposits payable	34,376.88
Bonds payable, less current portion	1,865,000.00
Notes payable, less current portion	<u>31,344.68</u>
Total Noncurrent Liabilities	<u>1,930,721.56</u>
Total Liabilities	<u>1,985,820.84</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	1,812,743.20
Restricted	128,564.05
Unrestricted	<u>1,134,744.74</u>
Total Net Position	<u>\$3,076,051.99</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHELSEA, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Economic Development Authority</u>
<b>Operating Revenues:</b>	
Sales - Water	\$ 815,515.00
Sales - Sewer	297,558.50
Sales - Sanitation	95,439.00
Late charges and penalties	23,510.44
Water tap and connection fees	9,311.29
Rental and lease income	5,199.96
Other income	5,007.34
Total Operating Revenues	<u>1,251,541.53</u>
<b>Operating Expenses:</b>	
Personal services	347,047.93
Maintenance and repairs	81,149.24
Operating supplies and expenses	398,568.25
Trash services	83,560.50
Utilities	50,067.48
Bond refinancing costs	152,439.78
Depreciation	140,074.36
Total Operating Expenses	<u>1,252,907.54</u>
Operating Income (Loss)	<u>(1,366.01)</u>
<b>Non-operating Revenues (Expenses)</b>	
Grants	12,964.00
Interest revenue	1,487.76
Interest expense	<u>(110,267.50)</u>
Total Non-operating Revenues (Expenses)	<u>(95,815.74)</u>
Net Income (Loss) Before Transfers	(97,181.75)
Transfers in from Town of Chelsea	<u>155,490.75</u>
Change in net position	58,309.00
Total net position - beginning	3,047,797.33
Prior period adjustment	<u>(30,054.34)</u>
Total net position - beginning restated	<u>3,017,742.99</u>
Total net position - ending	<u>\$ 3,076,051.99</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHELSEA, OKLAHOMA**  
**STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<b>Economic Development Authority</b>
<b>Cash flows from operating activities:</b>	
Cash received from operations	\$ 1,251,541.53
Cash paid to employees for services	(347,047.93)
Cash paid to suppliers for goods and services	<u>(781,234.95)</u>
Net cash provided (used) by operating activities	<u>123,258.65</u>
<b>Cash flows from non-capital financing activities:</b>	
Grants	12,964.00
Transfers from Town of Chelsea	<u>155,490.75</u>
Net cash provided (used) in non-capital financing activities	<u>168,454.75</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchases of investments	(130.48)
Purchases of capital assets	(150,872.00)
Meter deposits received	25,834.00
Return of meter deposits	(45,755.07)
Principal payments on capital debt	(66,000.00)
Interest paid on capital debt	<u>(110,267.50)</u>
Net cash provided (used) by capital and related financing activities	<u>(347,191.05)</u>
<b>Cash flows from investing activities:</b>	
Interest	<u>1,487.76</u>
Net cash provided (used) by investing activities	<u>1,487.76</u>
Net increase (decrease) in cash and cash equivalents	(53,989.89)
Beginning cash and cash equivalents	<u>1,193,125.37</u>
Ending cash and cash equivalents	<u>\$ 1,139,135.48</u>
<b>Reconciliation of net income to net cash provided (used)</b>	
<b>by operating activities:</b>	
Operating Income (Loss)	\$ (1,366.01)
Adjustments to reconcile net income to net cash	
provided (used) by operating activities:	
Depreciation and amortization	140,074.36
Change in assets and liabilities:	
(Increase) Decrease in:	
Inventory	<u>(15,449.70)</u>
Net cash provided (used) by operating activities	<u>\$ 123,258.65</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHELSEA, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS**

**INDEX**

**NOTE 1.**      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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- B.      Basis of Presentation
- C.      Measurement Focus and Basis of Accounting
- D.      Assets, Liabilities and Equity
- E.      Revenues, Expenditures and Expenses
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- B.      Restricted Assets
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**TOWN OF CHELSEA, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

Note 1. Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the Town of Chelsea, Oklahoma's ("Town") financial statements.

As discussed further in Note 1C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurements and recognition criteria of the modified cash basis of accounting.

1.A. Financial Reporting Entity

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Chelsea, Oklahoma
Blended Component Unit:	Chelsea Economic Development Authority

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units of which the Town appointed a voting majority of the units' board and the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

*Blended Component Units*

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's fund is blended into those of the Town's by appropriate activity type to comprise the primary government presentation.

**Blended Component Units**

Component units that are blended into the reporting activity types of the Town's reports are presented below:

<b>Component Unit</b>	<b>Brief Description/Inclusive Criteria</b>	<b>Reporting</b>
Chelsea Economic Development Authority	Created to finance, develop and operate the water, sewer and sanitation services of the Town.	Enterprise Fund

**Discretely Presented Component Units**

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 1, Summary of Significant Accounting Policies: continued

1.B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position -Modified Cash Basis and Statement of Activities – Modified Cash Basis display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**Governmental Funds**

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenues Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town.

**Proprietary Funds**

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund:

**TOWN OF CHELSEA, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

Note 1. Summary of Significant Accounting Policies: continued

1.B. Basis of Presentation: continued

<u>Fund</u>	<u>Brief Description</u>
Chelsea Economic Development Authority	Accounts for the activities of the public trust in providing water, sewer and sanitation services to the public.

**Major and Non-Major Funds**

<i>Major:</i>	<p>General Fund</p> <p>Special Revenue Fund:</p> <p style="padding-left: 20px;">Chelsea Improvement Trust Fund</p> <p style="padding-left: 20px;">Accounts for monies received from the sale of the Town's electrical distribution system.</p> <p>Proprietary Fund:</p> <p style="padding-left: 20px;">Chelsea Economic Development Authority</p> <p style="padding-left: 20px;">Accounts for activities of the public trust in providing water, sewer and sanitation services to the public</p>
<i>Non-Major:</i>	<p>Special Revenue Funds:</p> <p style="padding-left: 20px;">Cemetery Fund</p> <p style="padding-left: 20px;">Civil Defense Fund</p> <p style="padding-left: 20px;">Firemen's Special Equipment Fund</p> <p style="padding-left: 20px;">Fire Department – Bldg Maint Fund</p> <p style="padding-left: 20px;">Library Fund</p> <p style="padding-left: 20px;">Parks – Playground Special Fund</p> <p style="padding-left: 20px;">Police Canine Unit Fund</p> <p style="padding-left: 20px;">Police Equipment Fund</p> <p style="padding-left: 20px;">Police Special Training Fund</p> <p style="padding-left: 20px;">Special Assessment Fund</p> <p style="padding-left: 20px;">Street Fund</p> <p style="padding-left: 20px;">Street and Alley Equipment Fund</p> <p style="padding-left: 20px;">Swimming Pool Fund</p> <p style="padding-left: 20px;">Tax Trust and Retirement Fund</p>

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

In the government-wide Statement of Net Position – Modified Cash Basis and the Statement of Activities – Modified Cash Basis, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as subsequently defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 1. Summary of Significant Accounting Policies: continued

1.C. Measurement Focus and Basis of Accounting: continued

- a. All governmental funds utilize a “current financial resources” measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent, financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting. Proprietary fund equity is classified as net position.
- c. Agency funds are not involved in the measurement of results or operations, therefore, measurement focus is not applied to them.

**Basis of Accounting**

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modification to the cash basis of accounting to report in the statements of net position or balance sheets, cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustments to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

1.D. Assets, Liabilities and Equity

Cash and Cash Equivalents

For the purpose of Statement of Net Position, “cash, including time deposits” includes all demand, savings accounts and certificates of deposit of the Town. For the purposes of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 1. Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Equity: continued

Capital Assets

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions or events and reports depreciation, when appropriate. The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-Wide Statements*

In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets arising from cash transactions or events is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20 to 60 years
Improvements	20 to 60 years
Utility System	20 to 80 years
Infrastructure	20 to 80 years
Machinery and Equipment	3 to 20 years

*Fund Financial Statements*

In the fund financial statements, capital assets arising from cash transactions or events acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. Restricted assets include funds on deposit representing utility customer meter deposits which are refundable to the customer and funds on deposit required to be reserved by terms of promissory notes.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 1. Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Equity: continued

Long-Term Debt: continued

Long-term debt arising from cash transactions or events for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

Equity Classification

*Government-Wide and Proprietary Statements:*

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Fund Financial Statements:*

In the governmental fund financial statements, fund balances are classified as follows:

- a. Nonspendable – amounts that cannot be spent either because they are in a nonspendable form (such as inventories and prepaid amounts) or because they are legally or contractually required to be maintained intact.
- b. Restricted – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- c. Committed – amounts that can be used only for specific purposes determined by a formal action of government’s highest level of decision-making authority.
- d. Assigned – amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- e. Unassigned – amounts that are available for any purpose; these amounts can be reported only in the government’s general fund.

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 1. Summary of Significant Accounting Policies: continued

1.E. Revenues, Expenditures and Expenses

Sales Tax

The Town presently levies a sales tax on taxable sales within the Town limits. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Oklahoma Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund. Sales taxes collected by the State in June and July (which represent sales for the last half of May and the entire month of June) are received by the Town in July and August.

Use Tax

The Town levies a use-tax on personal property purchased outside the Town limits but stored, used or consumed within the Town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received by the vendors. The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July are received by the Town in July and August.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expense not related to capital and related financing, noncapital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are reported on the modified cash basis of accounting and are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:	Current (further classified by activity)
	Capital Outlay
	Debt Service

Proprietary Fund – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

1.F. Interfund Transfers

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

1.G. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 2. Stewardship, Compliance and Accountability

By its nature as a local government unit, the Town and its component units are subject to various federal, state and local laws and contractual regulations. An analysis of the Town's compliance with significant laws, regulations, grants and contracts and demonstration of its stewardship over Town resources follows:

2.A. Fund Accounting Requirements

The Town complies, in all material respects, with state and local laws and regulations requiring the use of separate funds. The legally required funds used by the Town include the following:

<u>Fund</u>	<u>Required By</u>
Chelsea Economic Development Authority	Trust Indenture

2.B. Deposit and Investment Laws and Regulations

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C. A., Section 1823 (e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note 3.A., all deposits were fully insured or collateralized for the fiscal year ended June 30, 2014.

Investments of the Town (excluding Public Trusts) whose population exceeds 3,000 according to the latest census information are limited by state law to the following:

1. Direct obligations of the U.S. Government, its agencies or instrumentalities to the payment of which the full faith and credit of the Government of the United States is pledged, or obligations to the payment of which the full faith and credit of this state is pledged;
2. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions;
3. With certain limitation, negotiable certificates of deposit, prime bankers acceptance, prime commercial paper and repurchase agreements with certain limitations;
4. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district;
5. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of national mortgage associations;
6. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs 1., 2., 3., and 4.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2014, the Town had funds that were invested in an annuity which do not comply with 12 U.S.C.A., Section 1823 (e).



**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 2. Stewardship, Compliance and Accountability: continued

2.C. Budgetary Accounting and Control

The Town operates under the Oklahoma Municipal Budget Act of 1979 (the "Budget Act"), as amended in 1991. The budget, as adopted by the Town council, is filed with the State of Oklahoma office of the Auditor and Inspector and with the County Excise Board. Budget supplements made during the year are recommended by the Town administrator and must be approved by the Town council. Amendments are then filed with the two agencies mentioned above. The budget and actual comparisons presented in the financial statements include the legally amended budgets for the respective funds.

The Town uses the following procedures in establishing the budgetary data reflected in the accompanying combined financial statements"

- a. Prior to June 1, the Town manager submits to the Town council a proposed operating budget for the fiscal year commencing the following July 1 based on previous years revenue at 90%. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at regular Town meetings to obtain taxpayer comments. Public hearings are held no later than fifteen (15) days prior to the beginning of the budget year.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is legally enacted through the passage of a motion by the Town council.

Formal budgetary integration is employed as a management control device during the year for all governmental funds.

Once the legal budget is adopted by the governing body, all budget amendments, including supplemental, decrease or transfer of appropriations, to the legal level of control as defined below, requires governing body approval.

The level of control at which expenditures may not legally exceed appropriations is at the account category level by department within a fund for each legally adopted fiscal operating budget.

2.D. Revenue Restrictions

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Utility Revenue	Debt Service and Utility Operations

For the year ended June 30, 2014 the Town complied, in all material respects, with those revenue restrictions.

2.E. Debt Restrictions and Covenants

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2014, the Town had no outstanding general obligation debt.

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 2. Stewardship, Compliance and Accountability: continued

2.E. Debt Restrictions and Covenants: continued

Other Long-Term Debt

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2014, the Town incurred no such indebtedness.

2.F. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute in all material respects for the year ended June 30, 2014.

Note 3. Detail Notes – Transaction Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

3.A. Cash and Investments

Authorized Investments

State statutes govern the Town's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit or savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The Town is invested in certificates of deposit and annuities.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits, including interest-bearing certificates of deposits, are maintained in financial institutions. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2014, none of the Town's investments were exposed to custodial credit risk.

Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**3.B. Restricted Assets**

The amounts reported as restricted assets are comprised of cash and investments held for special revenue funds that are to be used for specific purposes or by Town regulations and, cash and investments held in trust on behalf of the Chelsea Economic Development Authority related to their required note payable reserve account and amounts held in trust for customer utility meter deposits.

The restricted assets as of June 30, 2014 are as follows:

*Governmental Activities:*

Chelsea Improvement Trust Fund	\$ 1,757,489.85
Special Revenue Funds	<u>155,344.57</u>
	<u><u>\$ 1,912,834.42</u></u>

*Business-type Activities*

Meter Deposits	\$ 48,039.87
Loan Reserves	<u>80,524.18</u>
	<u><u>\$ 128,564.05</u></u>

**3.C. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Balance July 1	Additions	Retirements	Balance June 30
<i>Governmental Activities:</i>				
Non-depreciable assets				
Land	\$ 101,000.00	\$ -	\$ -	\$ 101,000.00
Total Non-depreciable assets	<u>101,000.00</u>	<u>-</u>	<u>-</u>	<u>101,000.00</u>
Depreciable assets				
Buildings and improvements	509,440.50	7,175.00	-	516,615.50
Vehicles	439,299.00	85,983.24	-	525,282.24
Machinery, furniture and equipment	<u>147,865.29</u>	<u>9,000.00</u>	<u>-</u>	<u>156,865.29</u>
Total capital assets being depreciated	<u>1,096,604.79</u>	<u>102,158.24</u>	<u>-</u>	<u>1,198,763.03</u>
Less: accumulated depreciation for:				
Buildings and improvements	347,703.26	7,334.54	-	355,037.80
Vehicles	303,975.39	19,976.78	-	323,952.17
Machinery, furniture and equipment	<u>61,837.54</u>	<u>11,085.41</u>	<u>-</u>	<u>72,922.95</u>
Total accumulated depreciation	<u>713,516.19</u>	<u>38,396.73</u>	<u>-</u>	<u>751,912.92</u>
Governmental activities capital assets, net	<u><u>\$ 484,088.60</u></u>	<u><u>\$ 63,761.51</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 547,850.11</u></u>

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 3. Detail Notes – Transaction Classes/Accounts: continued

3.C. Capital Assets: continued

Depreciation expense was charged to governmental activities as follows:

Primary Government:

Governmental Activities:

General governmental	\$ 3,084.12
Fire	19,318.73
Police	7,872.87
Cemetery	1,977.81
Library	1,034.80
Parks	2,960.90
Swimming Pool	2,147.50
	<u>\$ 38,396.73</u>

	Balance July 1	Additions	Retirements	Balance June 30
<i>Business-type Activities:</i>				
Non-depreciable assets				
Land	\$ 65,898.00	\$ -	\$ -	\$ 65,898.00
Total Non-depreciable assets	<u>65,898.00</u>	<u>-</u>	<u>-</u>	<u>65,898.00</u>
Depreciable assets				
Utility System	4,657,896.74	-	-	4,657,896.74
Buildings and improvements	388,594.46	150,872.00	-	539,466.46
Vehicles	99,002.84	-	-	99,002.84
Machinery, furniture and equipment	122,787.17	-	-	122,787.17
Total capital assets being depreciated	<u>5,268,281.21</u>	<u>150,872.00</u>	<u>-</u>	<u>5,419,153.21</u>
Less: accumulated depreciation:				
Utility System	1,175,264.94	124,142.01	-	1,299,406.95
Buildings	204,813.36	8,677.01	-	213,490.37
Vehicles	96,199.11	2,803.73	-	99,002.84
Machinery, furniture and equipment	104,512.28	4,451.61	-	108,963.89
Total accumulated depreciation	<u>1,580,789.69</u>	<u>140,074.36</u>	<u>-</u>	<u>1,720,864.05</u>
Business-type activities capital assets, net	<u>\$ 3,753,389.52</u>	<u>\$ 10,797.64</u>	<u>\$ -</u>	<u>\$ 3,764,187.16</u>

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 3. Detail Notes – Transaction Classes/Accounts: continued

3.D. Long-Term Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

As of June 30, 2014, the governmental funds had three capital leases payable as follows:

The Town entered into a capital equipment lease purchase agreement on March 27, 2014 with Bank of Commerce for the refinancing of an existing loan, a 1995 Freightliner Tanker, and a 1968 Kaiser Jeep in the amount of \$44,111.16. Monthly payments of \$671.13 began on April 27, 2014 and include interest of 3.00%. The final lease payment is due on March 27, 2020.

The Town entered into a capital equipment lease purchase agreement on April 2, 2014 with Bank of Commerce for a 2013 Ford Interceptor SUV in the amount of \$10,160.00. Monthly payments of \$436.90 began on May 2, 2014 and include interest of 3.00%. The final lease payment is due on April 2, 2016.

The Town entered into a capital equipment lease purchase agreement on June 6, 2014 with Bank of Commerce for a 2013 Ford Interceptor SUV in the amount of \$19,109.00. Monthly payments of \$423.35 begin on July 6, 2014 and include interest of 3.00%. The final lease payment is due on June 6, 2018.

The leases to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 16,407.31	\$ 1,969.25	\$ 18,376.56
2016	15,672.97	1,388.01	17,060.98
2017	12,156.73	977.03	13,133.76
2018	12,508.39	607.25	13,115.64
2019	7,756.43	297.13	8,053.56
2020	<u>5,677.02</u>	<u>68.55</u>	<u>5,745.57</u>
	<u>\$ 70,178.85</u>	<u>\$ 5,307.22</u>	<u>\$ 75,486.07</u>

Changes in Long-Term Debt

The following is a summary of the changes in general long-term debt for the fiscal year ended June 30, 2014:

	Amount Outstanding June 30, 2013	Issued	Retired	Amount Outstanding June 30, 2014
Governmental Activities				
Capital Leases	<u>\$ 32,551.91</u>	<u>\$ 73,380.16</u>	<u>\$ 35,753.22</u>	<u>\$ 70,178.85</u>

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 3. Detail Notes – Transactions Classes/Accounts: continued

3.D. Long-Term Debt: continued

Business-Type Activities

Utility System Revenue Bonds, Chelsea EDA 2014

On April 1, 2010, Chelsea Economic Development Authority issued Utility System Revenue Bonds, Series 2010, in the Amount of \$2,175,000.00. The proceeds of the bonds were to be used for capital improvements of the water and sanitary sewer systems of the Authority and the Town of Chelsea, to retire certain indebtedness of the Authority, to capitalize interest, and to pay the costs and expenses of issuance of the bonds.

The 2010 bond issuance was retired with a forward purchase agreement on March 1, 2014. Chelsea EDA 2014 bonds were issued in the amount of \$1,915,000.00 and were used to retire the 2010 bond issuance.

The amount of the bonds and its terms are as follows:

Amount of note	\$ 1,915,000.00
Date of bonds	March 1, 2014
Interest rate	Variable, currently 3.0%
Semi-annual payments	March 1 and September 1
Maturity date	March 1, 2036

The Bonds matures as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 50,000.00	\$ 69,581.25	\$ 119,581.25
2016	55,000.00	81,997.50	136,997.50
2017	60,000.00	80,347.50	140,347.50
2018	60,000.00	78,547.50	138,547.50
2019	65,000.00	76,747.50	141,747.50
2020 - 2024	355,000.00	347,615.00	702,615.00
2025 - 2029	450,000.00	265,700.00	715,700.00
2030 - 2034	555,000.00	149,250.00	704,250.00
2035 - 2036	265,000.00	19,600.00	284,600.00
	<u>\$ 1,915,000.00</u>	<u>\$ 1,169,386.25</u>	<u>\$ 3,084,386.25</u>

**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 3. Detail Notes – Transactions Classes/Accounts: continued

3.D. Long-Term Debt: continued

Loan Award

The Authority received a loan award from the Oklahoma Department of Commerce on September 23, 1997, in the amount of \$101,987.00. The loan requires two hundred thirty-nine (239) payments of \$424.94 and one (1) payment of \$426.34, with a 0% interest. The final payment is due in June 2022.

The loan matures as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 5,099.28	\$ -	\$ 5,099.28
2016	5,099.28	-	5,099.28
2017	5,099.28	-	5,099.28
2018	5,099.28	-	5,099.28
2019	5,099.28	-	5,099.28
2020 - 2022	10,947.56	-	10,947.56
	<u>\$ 36,443.96</u>	<u>\$ -</u>	<u>\$ 36,443.96</u>

Debt service requirements for all business-type activities are as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 55,099.28	\$ 69,581.25	\$ 124,680.53
2016	60,099.28	81,997.50	142,096.78
2017	65,099.28	80,347.50	145,446.78
2018	65,099.28	78,547.50	143,646.78
2019	70,099.28	76,747.50	146,846.78
2020 - 2024	365,947.56	347,615.00	713,562.56
2025 - 2029	450,000.00	265,700.00	715,700.00
2020 - 2034	555,000.00	149,250.00	704,250.00
2035 - 2036	265,000.00	19,600.00	284,600.00
	<u>\$ 1,951,443.96</u>	<u>\$ 1,169,386.25</u>	<u>\$ 3,120,830.21</u>

Changes in Long-Term Debt

The following is a summary of the changes in general long-term debt for the fiscal year ended June 30, 2014:

	Amount Outstanding June 30, 2013	Issued	Retired	Amount Outstanding June 30, 2014
Business-Type Activities				
Bonds Payable	\$ 1,975,000.00	\$ -	\$ 60,000.00	\$ 1,915,000.00
Note Payable	42,443.96	-	6,000.00	36,443.96
	<u>\$ 2,017,443.96</u>	<u>\$ -</u>	<u>\$ 66,000.00</u>	<u>\$ 1,951,443.96</u>

**TOWN OF CHELSEA, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

Note 4. Other Notes

4.A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The Town purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

4.B. Employee Retirement System and Pension Plan

The Town participates in two retirement funds for employees as described below.

Oklahoma Municipal Retirement Fund

The Town of Chelsea, Oklahoma contributes to the Oklahoma Municipal Retirement Fund (OMRF), cost-sharing multiple-employer defined benefit pension plan. OMRF provides retirement and disability benefits to all regular full-time employees, except any firemen and other employees covered under a state retirement system, and death benefits to members and beneficiaries. OMRF benefit provisions are set forth in the Fund's documents. The documents assign responsibility for the administration of the Fund to a nine (9) member board of trustees. OMRF issues a publicly available financial report that includes financial statements and required supplementary information.

OMRF members are required to contribute up to 3% of their applicable earnings and the Town of Chelsea, Oklahoma is required to contribute an amount determined by the Fund's actuary to fund the benefit level selected by the Town of Chelsea, Oklahoma. The contribution requirements of members and the Town of Chelsea, Oklahoma, are established and may be amended by the OMRF board of trustees.

Oklahoma Firefighters Pension and Retirement System

The Town of Chelsea, Oklahoma contributes to the Oklahoma Firefighters Pension and Retirement System (OFPRS), a cost-sharing multiple-employer defined benefit pension plan. OFPRS provides retirement and disability benefits to full-time (and certain voluntary) firefighters and death benefits to members and beneficiaries. OFPRS benefit provisions are set forth in Oklahoma State Statutes. The statutes assign responsibility for the administration of the system to a thirteen (13) member board of trustees. OFPRS issues a publicly available financial report that includes financial statements and required supplementary information.

OFPRS members are required to contribute 8% of their applicable earnings and the Town of Chelsea, Oklahoma is required to contribute 13% of the member's applicable earnings, for full-time firefighters. The required contributions for volunteer firefighters are based on an annual rate of \$60.00 per volunteer.

The contribution requirements of the members and the Town of Chelsea, Oklahoma, are established and may be amended by the OFPRS board of trustees. The Town of Chelsea, Oklahoma's contributions to OFPRS for the year ending June 30, 2014 were \$2,764.00, equal to the required contributions.

4C. Deposits in Insurance Pools

The Town is entitled to a refund of workers compensation insurance from the Oklahoma Municipal Assurance Group (OMAG) in the amount of \$34,075.14. The Town may receive their refund at any time by requesting, in a letter and accompanied by a copy of the board minutes in which the request was approved to OMAG. The balance is held in an escrow account invested in U.S. Treasury securities, and is fully collateralized.



**TOWN OF CHELSEA, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

Note 4. Other Notes: continued

4C. Deposits in Insurance Pools:continued

In addition, the Town has accumulated a balance in the OMAG Rate Stabilization Reserve (RSR) account, as a result of prior credits from worker's compensation premiums paid. This money could be drawn on by OMAG if the worker's compensation premium increased by more than 10% in any given year. OMAG credits this account with interest in April of each year. The Town would be entitled to a refund of the entire account balance upon termination of their participation in the OMAG plan.

4.D. Prior Period Adjustments

During the current year audit, financial statement presentation changed from the accrual method of accounting, as prescribed under GAAP, to the modified cash basis of accounting.

Financial statements for the year ended June 30, 2013, were restated to appropriately capture these changes and provide consistency and comparability among the years.

	<u>As reported</u> <u>June 30, 2013</u>	<u>Adjustments</u>	<u>As restated</u> <u>June 30, 2014</u>
To reflect change from accrual basis to modified cash basis of accounting:			
<i>General Fund:</i>			
Due from other governments	70,608.85	(70,608.85)	-
Due from CEDA	7,934.26	(7,934.26)	-
Accounts payable	(44,464.35)	44,464.35	-
Due to CEDA	(20,737.71)	20,737.71	-
Fund Balance	(96,561.61)	13,341.05	(83,220.56)
<i>Other Governmental Funds:</i>			
Due from other governments	1,233.09	(1,233.09)	-
Accounts payable	(6,735.10)	6,735.10	-
Fund Balance	(128,111.07)	(5,502.01)	(133,613.08)
<i>Proprietary Fund:</i>			
Accounts receivable	46,410.05	(46,410.05)	-
Due from Town of Chelsea	20,737.71	(20,737.71)	-
Bond issuance costs, net	59,507.75	(59,507.75)	-
Accounts payable	(52,110.83)	52,110.83	-
Accrued interest payable	(36,556.08)	36,556.08	-
Due to Town of Chelsea	(7,934.26)	7,934.26	-
Net position	(3,047,797.33)	30,054.34	(3,017,742.99)

4.E. Subsequent Events

Management has evaluated subsequent events up to and including June 30, 2016, which is the date the financial statements were available for issuance, and no additional disclosures are required.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Required supplementary information (RSI) includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Notes to RSI – Budgetary Comparison Schedule

**TOWN OF CHELSEA, OKLAHOMA  
BUDGET AND ACTUAL  
BUDGETED GENERAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Budget Variance	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sales tax	\$ 382,376.42	\$ 382,376.42	\$ 436,312.22	\$ -	\$ 53,935.80
Use tax	29,328.29	29,328.29	44,835.64	-	15,507.35
Tobacco tax	4,881.60	4,881.60	5,127.10	-	245.50
Alcohol beverage tax	9,592.63	9,592.63	11,579.43	-	1,986.80
Court fines	69,822.77	69,822.77	69,183.22	-	(639.55)
Franchise taxes	28,939.44	28,939.44	35,374.14	-	6,434.70
Licenses and permits	153.00	153.00	1,090.00	-	937.00
Fire runs	1,804.50	1,804.50	500.00	-	(1,304.50)
Reimbursements	4,139.86	4,139.86	6,215.03	-	2,075.17
Interest	6.69	6.69	18.64	-	11.95
Other	131,331.50	131,331.50	127,640.89	-	(3,690.61)
Transfers	84,000.00	84,000.00	84,000.00	-	-
Total Revenues	<u>746,376.70</u>	<u>746,376.70</u>	<u>821,876.31</u>	<u>-</u>	<u>75,499.61</u>
Expenditures:					
Clerk	48,868.79	48,868.79	67,107.05	-	(18,238.26)
Court	13,872.20	13,872.20	14,793.23	-	(921.03)
Treasurer	5,867.10	5,867.10	5,442.84	-	424.26
Attorney	12,500.00	12,500.00	10,991.53	-	1,508.47
General Government	123,169.01	123,169.01	148,578.84	-	(25,409.83)
Police	298,172.43	298,172.43	293,156.95	-	5,015.48
Fire	46,868.79	46,868.79	85,801.12	-	(38,932.33)
Parks	1,360.00	1,360.00	1,000.62	-	359.38
Transfers	142,977.91	142,977.91	200,049.33	-	(57,071.42)
Total Expenditures	<u>693,656.23</u>	<u>693,656.23</u>	<u>826,921.51</u>	<u>-</u>	<u>(133,265.28)</u>
Excess of Revenues over/(under) expenditures					
Before Other Sources/(Uses)	52,720.47	52,720.47	(5,045.20)	-	(57,765.67)
Cash Fund Balance, beginning of year	<u>83,220.56</u>	<u>83,220.56</u>	<u>83,220.56</u>	<u>-</u>	<u>-</u>
Cash Fund Balance, end of year	<u>\$ 135,941.03</u>	<u>\$ 135,941.03</u>	<u>78,175.36</u>	<u>\$ -</u>	<u>\$ (57,765.67)</u>

**TOWN OF CHELSEA, OKLAHOMA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Budgetary Accounting

The Town prepares its budget for the General Fund on the cash basis of accounting. This differs from the accrual basis of accounting used in presenting the General Fund in the basic financial statements. All unexpended appropriations lapse at year-end.

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

**OBER & LITTLEFIELD**  
**CERTIFIED PUBLIC ACCOUNTANTS, PLLC**  
124 SOUTH MAIN, MIAMI, OK 74354  
918-542-4401 OFFICE

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Town Council  
Town of Chelsea, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Chelsea, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Chelsea, Oklahoma's basic financial statements, and have issued our report thereon dated June 30, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Town of Chelsea, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Chelsea, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Chelsea, Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Chelsea, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and response at item 2014-1.

### **Town of Chelsea, Oklahoma's Response to Findings**

Town of Chelsea, Oklahoma response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Chelsea, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Ober & Littlefield, PLLC".

**OBER & LITTLEFIELD, CPAs, PLLC**  
**MIAMI, OKLAHOMA**  
**JUNE 30, 2016**

**TOWN OF CHELSEA, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2014**

**2014-1: Investment Activities**

*Criteria or specific requirement:* Municipalities are governed by State Statutes and local ordinances. Such criterion is explicit as to the types of activities municipalities may conduct both operationally and fiscally and are required to be evaluated when conducting an audit under Government Auditing Standards.

*Condition:* The Town currently reports an investment of \$1,750,516.63 in the Chelsea Improvement Trust. This investment appears to be in violation of Oklahoma Statutes, local ordinances and voter propositions. The investment, according to local ordinance, was to remain intact at approximately \$2.2 million.

*Effect:* The Town's governmental assets have not been properly safeguarded according to local ordinances and voter propositions.

*Cause:* The Town did not consult experts involved in municipal management and finance when conducting the investment of the funds.

*Recommendation:* The Town should obtain a legal opinion as to the legality of the investments made and determine what legal actions, if any, should be taken to correct losses that have been incurred in relation to the investment.

*Managements Response:* We understand our responsibility regarding this issue and will take the appropriate actions as recommended.



**TOWN OF CHELSEA, OKLAHOMA  
SCHEDULE OF PRIOR YEARS FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

**2013-1: Investment Activities**

*Condition:* The Town was reporting an investment of approximately \$1,578,629.29 in the Chelsea Improvement Trust and this investment appeared to be in violation of Oklahoma Statutes, local ordinances and voter propositions. The investment, according to local ordinance, was to remain intact at approximately \$2.2 million.

*Recommendation:* The auditor recommended that the Town should obtain a legal opinion as to the legality of the investments made and determine what legal actions, if any, should be taken to correct losses that have been incurred in relation to the investment.

*Current Status:* This finding has not yet been corrected by management. (Refer to finding 2014-1)